

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-01 OMB-01 CEA-01 L-02 DOTE-00

CIAE-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 FAA-00 /071 W

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FM AMEMBASSY BUENOS AIRES

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E.O. 11652: N/A

TAGS: EIND, EINV, AR

SUBJECT: SITUATION OF U.S. BUSINESS IN ARGENTINA

REF: BA 1152

1. ON MORNING OF MARCH 10, I ARRANGED A MEETING FOR ASSISTANT SECRETARY ROGERS WITH A GROUP OF TOP EXECUTIVES (BOTH AMERICAN AND ARGENTINE CITIZENS) OF AMERICAN COMPANIES IN ARGENTINA. PURPOSE OF MEETING WAS TO ENABLE THEM TO GIVE SECRETARY ROGERS FULL FLAVOR OF THE EXTREMELY SERIOUS PROBLEMS FACED BY MOST OF THEM.

2. I CONSIDER THAT THIS FURNISHES AN APPROPRIATE OCCASION TO GIVE WASHINGTON AGENCIES ONE OF OUR PERIODIC REPORTS ON THE STATE OF AMERICAN BUSINESS IN THIS TROUBLED ECONOMY. PARTICULAR CONCERNS EXPRESSED BY MOST OF THOSE PRESENT WERE: (A) PRICE CONTROLS, COMBINED WITH COST INCREASES, ARE PUTTING TIGHT SQUEEZE ON PROFITS AND IN MANY CASES ARE CAUSING FIRMS SERIOUS LOSSES; (B) THERE IS BOTH OPEN AND CONCEALED GOVERNMENT DISCRIMINATION AGAINST U.S. FIRMS AND FOREIGN FIRMS IN GENERAL; AND  
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(C) LOW PRODUCTIVITY BROUGHT ABOUT BY EFFECTS OF NEW

LABOR LAW AND INFILTRATION OF SUBVERSIVE AGITATORS  
IN PLANTS.

3. CONCERNING PROFIT SQUEEZE, AMCHAM PRESIDENT, WHO IS PRESIDENT OF PEPSICO ARGENTINA, SAID HIS COMPANY HAD LOST OVER \$10 MILLION DOLLARS IN PAST 1 1/2 YEARS. REPRESENTATIVES OF GM AND CHRYSLER TOLD OF EVEN HIGHER LOSSES IN THEIR INDUSTRY. TOTAL LOSSES OF 8 FOREIGN-OWNED AUTOMOBILE MANUFACTURERS IN 1974 AMOUNTED TO \$160 MILLION DOLLARS, OF WHICH U.S. COMPANIES ACCOUNTED FOR OVER HALF. THEY ARE EVEN LOSING MONEY ON CAR SALES TO CUBA, WHICH BEGAN AS A PROFITABLE OPERATION. ESSO PRESIDENT POINTED OUT GOA HAD TAKEN OVER THE DISTRIBUTION PART OF ESSO'S BUSINESS, AND HAS NOT YET COME TO ANY ARRANGEMENT ABOUT COMPENSATION OR ABOUT ESSO'S FUTURE IN THE COUNTRY, IF ANY.

4. IN DISCUSSION OF ANTI-U.S. AND/OR ANTI-FOREIGN DISCRIMINATION BY GOA, CITY BANK VP SAID BANK IS MAKING PROFIT BUT SUFFERS DISCRIMINATION (TOGETHER WITH OTHER FOREIGN-OWNED BANKS) BOTH IN ITS OWN ACCESS TO REDISCOUNT FACILITIES AND IN ITS ABILITY TO EXTEND CREDITS TO U.S.-OWNED CUSTOMERS. SEVERAL OTHERS AGREED, AND SAID THEIR FIRMS ARE HAVING GREAT DIFFICULTY IN OBTAINING CREDITS BECAUSE OF GOA CREDIT DISCRIMINATION AGAINST FOREIGN FIRMS. PEPSICO PRESIDENT SAID HIS COMPANY AND COCA-COLA HAD BEEN SUBJECT TO DISCRIMINATORY GOVERNMENT TREATMENT IN FAVOR OF NON-FOREIGN SOFT DRINKS. (COMMENT: NEVERTHELESS, THEY HAVE LION'S SHARE OF SOFT DRINK MARKET). PRESIDENT OF MINERA AGUILAR (ST. JOE MINERALS) SAID THAT GOA HAD RELAXED PRICE CONTROLS ON ALL MINERALS EXCEPT THOSE PRODUCED BY ST. JOE, WHICH IS ONLY MAJOR FOREIGN-OWNED MINERAL PRODUCER IN THE COUNTRY.. REP OF CHASE MANHATTAN POINTED OUT IT HAS BEEN 2 YEARS SINCE GOA EXPROPRIATED CHASE-OWNED BANK AND AS YET THERE WAS NO AGREEMENT IN SIGHT ON COMPENSATION. HE SAID CHASE DOES NOT FEEL THIS IS "PROMPT" COMPENSATION. HE ADDED ECONOMY MINISTER HAS GOOD INTENTIONS. BRANIFF AND PANAM REPS SAID THEY ARE AT DISADVANTAGE WITH EXCHANGE REGULATIONS WHICH PROHIBIT THEM FROM TRANSFERRING MONEY UNTIL PASSENGER HAS ACTUALLY TRAVELLED, AND EVEN THEN THE BUREAUCRACY SEEMS TO DELAY LIMITED OFFICIAL USE

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MUCH LONGER THAN NECESSARY. SAID ALL FOREIGN AIR LINES ARE AFFECTED. PANAM REP ADDED THAT FOR ABOVE REASONS RECENT DEVALUATION ALONE HAD COST PANAM \$1 1/2 MILLION DOLLARS.

5. SEVERAL EXECUTIVES, INCLUDING AUTOMOBILE COMPANIES, ST. JOE AND STERLING DRUG, EXPRESSED SERIOUS CONCERN AT INFILTRATION INTO THEIR UNIONS, BOTH AT PLANTS AND OFFICES, OF AGITATORS CONNECTED WITH OUTLAWED SUBVERSIVE

ORGANIZATIONS. THEY SAID REGULAR UNION OFFICERS AND SHOP STEWARDS ARE UNABLE OR UNWILLING TO PREVENT THESE PEOPLE FROM IMPOSING THEIR WILL ON OTHER WORKERS, WHICH, WE UNDERSTAND, IS DONE BOTH BY THREATS AND PROMISES OF REWARDS. GM REP SAID UNION PLANT REPS HAD FOR A TIME ARBITRARILY IMPOSED PRODUCTION LIMIT OF 120 CARS PER DAY. CHRYSLER REP SAID ABSENTEEISM AVERAGES 25 PERCENT, BUT IS CLEVERLY ORCHESTRATED IN KEY AREAS SO AS TO FRUSTRATE EFFORTS TO DEAL WITH OVERALL EFFECTS OF ABSENTEEISM AND OTHER PRODUCTION PROBLEMS.

6. SEVERAL BUSINESSMEN, SPEAKING IN GENERAL TERMS, SAID THEY SEE NO POLICY UNIFORMITY AT TOP LEVEL IN GOVERNMENT, NOR DO THEY SEE ANY CLEAR DIRECTION OF POLICY. PRESENT POLICIES, OR LACK OF POLICY, ARE LEADING MANY COMPANIES AND ECONOMY INTO SEVERE DIFFICULTIES. THERE WAS AN AIR OF INTENSE CONCERN OVER THE FACT THAT THE NEW ECONOMIC TEAM, WHICH HAD AROUSED GREAT HOPES FOR REVERSING THE DIRECTION OF THE ECONOMY, HAS NOT YET BEEN ABLE TO COME TO GRIPS WITH THE BASIC PROBLEMS. THEY BELIEVE MINISTER OF ECONOMY REALIZES THIS AND WOULD LIKE TO DO SOMETHING ABOUT IT BUT DOES NOT HAVE POLITICAL STRENGTH. THEY SAY TOP GOA OFFICIALS SEEM ONLY ABLE TO HANDLE SPECIFIC CASES ON AD HOC BASIS. THEY ALSO EXPRESSED SERIOUS CONCERN ABOUT RECENT RE-FREEZING OF PRICES AFTER SEVERAL MONTHS OF GREATER FLEXIBILITY IN PRICE CONTROLS. IT WAS GENERALLY AGREED THAT FOREIGN-OWNED COMPANIES ARE BEARING THE BRUNT OF THIS DIFFICULT SITUATION.

7. DESPITE ALL OF THE ABOVE, CITY BANK VP SAID HIS BANK IS NEGOTIATING NEW CREDITS TOTALLING AROUND \$400 MILLION DOLLARS.

8. COMMENT: THE ATTITUDE OF THESE SENIOR EXECUTIVES WAS CALM, WITH NO DRAMATICS. EMBASSY BELIEVES, HOWEVER, THAT LIMITED OFFICIAL USE

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PESSIMISTIC VIEWS EXPRESSED MUST BE WEIGHED AGAINST SOME OTHER CONSIDERATIONS. THE MORE VOCAL REPRESENTATIVES TENDED TO BE FROM FIRMS WITH DIFFICULT PROBLEMS WHO HAD OPPORTUNITY TO TELL THEIR STORY TO ASSISTANT SECRETARY ROGERS. "DISCRIMINATION" IN ARGENTINA, THOUGH ADMITTEDLY THERE, MAY NOT NECESSARILY APPEAR AS BAD IF COMPARED WITH SITUATION IN OTHER COUNTRIES. AS DID EMERGE IN THE DISCUSSION, ARGENTINE FIRMS AND BUSINESS ORGANIZATIONS COMPLAIN VOCIFEROUSLY OF MANY OF THE SAME THINGS AS U.S. FIRMS. IN SHORT, WHILE SITUATION SERIOUS INDEED FOR MANY BUSINESS FIRMS, COMMENTS SHOULD BE TAKEN AT FACE VALUE AND NOT AS BALANCED ASSESSMENT OF ARGENTINE ECONOMY.

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